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FISCAL IMPACT STATEMENT

LS 7454

BILL NUMBER: HB 1931

NOTE PREPARED: Jan 13, 2003

BILL AMENDED:

SUBJECT: Residential Steel Framing Tax Credit.

FIRST AUTHOR: Rep. Ayres

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: The bill establishes a \$2,000 Adjusted Gross Income (AGI) Tax deduction for the builder and purchaser of a one family residence constructed using steel framing manufactured in Indiana.

Effective Date: January 1, 2004.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses presumably could be absorbed given the DOR's existing budget and resources. The bill requires a taxpayer claiming the deduction to file with the DOR: (1) proof of the costs attributable to the labor and materials for the steel framing; and (2) a list of the persons or corporations who supplied labor or materials for the steel framing.

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who purchase certain steel frame homes from a builder; and individual and corporate taxpayers that are home builders selling certain steel frame homes. The revenue loss due to this bill could potentially total \$286,000 to \$500,000 in FY 2005. This impact could increase by 4% to 5% annually thereafter.

Background: The bill provides for a deduction from Adjusted Gross Income for: (1) an individual taxpayer who purchases from a builder a single-family residence constructed wholly or partially of steel framing manufactured in Indiana; and (2) an individual or corporate taxpayer that is a builder and sells such a steel frame home to an individual. Under the bill, the deduction amount is the lesser of : (1) the part of the purchase price of the home attributable to labor and materials for the steel framing; or (2) \$2,000.

Home construction data from the *Steel Framing Alliance* and the *National Association of Home Builders*, suggests that steel frame homes represent about 5.5% of new home construction nationally. Taking this percentage of 2001 housing starts in Indiana (approximately 32,000) it is estimated that 1,800 homes containing steel framing were constructed in Indiana during that year. Adjusting for the annual trend in housing starts in recent years (average annual growth since 1991 of about 5.2%), it is estimated that about 2,100 homes containing steel framing will be constructed in tax year 2004. The tax impact of the deduction on these homes is estimated to range from \$286,000 to \$500,000, depending upon the number of builders that are corporations. The fiscal impact assumes a \$2,000 deduction being claimed by 2,100 home buyers with a tax rate of 3.4%. It also assumes a \$2,000 deduction taken for each home by builders. The lower range assumes the 3.4% individual AGI Tax rate for builders and the upper range assumes the 8.5% corporate AGI Tax rate for builders. Due to the absence of data, the estimate does not control for the deduction being limited to homes containing Indiana manufactured steel framing.

Revenue from the AGI Tax on corporations is distributed to the state General Fund. Eighty six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund. Since the deduction is effective beginning in tax year 2004, the fiscal impact would begin in FY 2005.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed deduction would serve to decrease Taxable Income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: *Characteristics of New Single-Family Homes (1987-2001)*, National Association of Home Builders, <http://www.nahb.org>. *New Residential Permits by County, 1 Family Units: 2001*, Stats Indiana, <http://www.stats.indiana.edu>. *Use of Steel by Application*, The Steel Framing Alliance, <http://www.steelframingalliance.com>.

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